1 February 1955

SITUATION IN TURKEY

I.   In recent months, increasingly clear Turkey's foreign,

domestic economic situation steadily deteriorating.

A.   Inability pay accumulated foreign commercial debts

(some $150 million, mostly owed to West Europe)--this

damaging nation's credit standing.

B.   Over-expansion of heavy industry, public works, defense

programs (up 44% in FY '55 plans)--this straining

nation's resources.

C.   Cost-of-living continues to climb (up 20% since '52)

supplies of essential imports (industrial materials,

spare parts) being depleted to point some industries

forced close down, currency depreciating (officially,

dollar equals 2.80 Turkish pounds, but current black

market quote is 7.10).

D.   Lack of Western credit, markets turning some Turkish

trade toward Orbit.

1.   Exports to Orbit up more than 60% this year--were

some 20% of Turkey's total '54 exports.

E.   Currency devaluation could help solve problems. 44% cut

has been recommended by West, but any cut firmly opposed

by Menderes government.

II.   In contrast economic woes, domestic political situation stable:

A.   Democratic Party re-elected by overwhelming majority

(May. '54).

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B. Post-election tensions between Democrats, defeated
   Republican People's Party now apparently dissipating.

III. Internationally, regardless expanding Orbit trade, Turkey's
   Western orientation firm.

 A. Active in NATO, and Balkan Pact (also OEEC, COCOM,
   Council of Europe).

 B. Continues to be leader in approaches to Middle East
   Defense--Turk-Pakistan Pact (April '54), projected
   Turk-Iraq treaty.

IV. Turkey's natural resources, raw materials and manpower
   adequate for balanced viable economy if only pace of expan-
   sion industry, public works slowed.

 A. More realistic approach economic affairs must be adopted,
   even if this requires forceful Western pressures.

 B. If Western advice heeded, Turkey's long-range prospects
   optimistic.